



**MINUTES FROM MEETING OF THE  
INVESTMENT COMMITTEE OF THE  
PLANS MANAGEMENT BOARD  
FEBRUARY 20, 2018**

The Investment Committee (the “Committee”) of the Plans Management Board (the “Board”) held a meeting on February 20, 2018 at 10:00 a.m. in the main conference room of the Office of the State Treasurer (“OST”) located at 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Committee Members Represented or in Attendance:

Mr. Alan Colberg, Investment Committee Chair

The Honorable Kenneth Simpler, State Treasurer

Mr. Robert Scoglietti, Director of Policy and External Affairs, Office of Management and Budget (on behalf of Director Jackson)

Ms. Stephanie Scola, Director of Bond Finance, Department of Finance (on behalf of Secretary Geisenberger)

Mr. Jose Echeverri, Committee Member

Mr. Todd Roselle, Committee Member

Committee Members Not Represented or in Attendance:

Mr. Porter Schutt, Committee Member

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice

Ms. Nora Gonzalez, Deputy State Treasurer, OST

Mr. Daniel Madrid, Director of Planning & Performance Management, OST

Mr. John Meyer, Director of Contributions and Plan Management, OST

Mr. Mike Green, Investments and Operations Manager, OST

Mr. Daniel Kimmel, Promotion and Outreach Manager, OST

Mr. Omar Masood, Policy Advisor, OST

Mr. Earle Allen, Cammack Retirement Group (“Cammack”)

Ms. Denise Burns, Cammack

Ms. Marie Villeneuve, Cammack

Ms. Melissa Ridolfi, Fidelity Investments (“Fidelity”)

Mr. Justin Rozzero, Fidelity

Mr. Peter Walsh, Fidelity

**CALLED TO ORDER**

The meeting was called to order at 10:00 a.m.

**INTRODUCTIONS**

Treasurer Simpler welcomed new members of the Committee. Mr. Meyer introduced Mr. Colberg as the Committee Chair. Mr. Colberg invited the Fidelity representatives to begin their presentation.

## **PRESENTATIONS**

### *Investment Performance on College Investment Plan by Fidelity*

Ms. Ridolfi introduced herself as the new vice president level contact at Fidelity replacing Keith Bernhardt. Mr. Rozerro introduced himself as the relationship manager for the Delaware, New Hampshire and Arizona 529 plans.

Fidelity presented the 2017 investment results for the 529 college savings plan. Mr. Walsh reported that Fidelity's active age-based portfolios outperformed the benchmark on a 1, 3, 5-year basis, and that all of Fidelity's multi-firm, age-based portfolios likewise outperformed their benchmarks. Mr. Walsh stated that Fidelity's active age-based and static portfolios underperformed their benchmarks in the fourth quarter of 2017 while index portfolios were "in line" with their respective benchmarks. Mr. Roselle inquired about the specific benchmarks that Fidelity used to track performance. Mr. Walsh referred to page 5 in the *Q4 2017 529 Executive Summary DE* presentation that lists the composite benchmarks.

Mr. Meyer asked Mr. Walsh to provide an overview to the Committee on the portfolio options available to participants. Mr. Walsh described the portfolio options offered as actively managed age-based, actively managed static, actively managed individual funds, index age-based, index static, index individual funds, non-Fidelity funds age-based, and a bank deposit portfolio. Mr. Walsh added that approximately 65% of assets are invested in the actively managed, age-based portfolios.

Mr. Walsh explained the philosophy behind Fidelity's glide path and asset allocation model. The Committee discussed Fidelity's glide path and inquired if the recent tax bill authorizing the use of 529 funds for K-12 expenses would impact the glide path philosophy. Fidelity stated it was monitoring the use of funds for K-12 tuition expenses to evaluate the potential impact on the glide path.

Mr. Walsh provided an overview of current investment positioning and Fidelity's views of the market. He noted the current positioning reflects a positive view of the global economic environment with an emphasis on equities in emerging markets. Mr. Walsh indicated that sovereign bond yield rates support underweighting.

Treasurer Simpler thanked Mr. Walsh for his commentary and requested a presentation on competitor age-based portfolio comparisons at the next Committee meeting.

### *Investment Performance on Deferred Compensation Plans by Cammack*

Mr. Allen introduced himself as Cammack's new senior consultant (replacing Jeff Snyder).

Ms. Villeneuve presented on investments for the deferred compensation plans. Ms. Villeneuve reported \$741.6 million in assets, an increase of \$132 million or 21.7% of total assets as of December 31, 2016. The assets represent the plans on the recordkeeping platform at Voya. The Committee discussed the 403 (b) plan assets. Mr. Staib explained the three types of 403(b) plan assets: "orphaned" assets, legacy assets, and Voya assets.

Ms. Villeneuve indicated the weighted average expense ratio for the plans was 35 basis points, a competitive ratio for public defined contribution plans in the same size bracket (\$700 million-\$2 billion), according to data from the National Association of Governmental Defined Contribution Administrators (NAGDCA). Mr. Colberg inquired about the NAGDCA average for the same size bracket as well and the lower bracket (below \$700

million). Ms. Villeneuve indicated averages of 32 basis points for plans above \$700 million and 31 basis points for plans below \$700 million.

Ms. Villeneuve stated that American Funds reduced the expense ratios on January 1, 2018 as result of growth in assets under management in the target date series and underlying funds. Vanguard funds experienced a share class fee reduction effective as of January 23, 2018 as a result of growth in assets.

Ms. Villeneuve said about 80% of assets, 94% of participants, and 82% of recent contributions are concentrated in the Tier 1 investments. Ms. Villeneuve said average annualized returns were in the top quartile for historical 3-, 5-, 10-year periods. Tier 2 investments account for about 19% of assets and 18% of contributions. Approximately \$14 million was invested in the Voya Fixed Plus Account III. Tier 3 brokerage accounts constitute less than 1% of assets and only 73 accounts.

Ms. Burns recommended ClearBridge Midcap Growth Fund be placed on the watch list, notwithstanding improved performance in the previous quarter. Mr. Colberg observed that the fund appears to be seeking downside protection.

Cammack commented on notification requirements used when placing funds on the watch list. Ms. Burns indicated that participants are not informed of watch list placement but are notified after a recommendation for removal is made. Ms. Villeneuve said the watch-to-removal and termination of watch status process usually takes four quarters.

Mr. Colberg said the investment policy statement should serve as a guide and it is important to evaluate funds closely before reaching a final determination. Mr. Colberg said it is important to document such decisions, and pointed out that since the recommendation has been made, the Committee should take action.

Mr. Staib discussed the issue of disclosing the watch list to participants and indicated review of practices by other plan sponsors found only one plan sponsor making such notifications.

Ms. Burns noted that watch listing is not always due to lack of adequate performance and indicated that significant changes in management could trigger placement on the watch list. Mr. Scoglietti noted that watch list decisions are reflected in publicly posted minutes.

**A MOTION was made by Treasurer Simpler and seconded by Mr. Roselle to recommend to the Board to accept Cammack's recommendation to add the ClearBridge Mid Cap Growth Fund to the watch list. MOTION ADOPTED UNANIMOUSLY**

## **DISCUSSIONS**

### *Feedback on Investment Reporting Packages*

The Committee discussed the structure of the presentations with a goal of working towards a streamlined set of reporting packages by the end of 2018.

Treasurer Simpler asked the Committee for feedback on Fidelity and Cammack's investment report structure. He encouraged the Committee to provide any comments to OST.

### *2018 Schedule and Committee Initiatives*

Mr. Meyer indicated the following subjects would be potential areas of focus for the 2018: 1) investment policy statements 2) reporting package structures, 3) benchmarks. The review and discussion of investment policy statements would be a topic for the May meeting.

Mr. Meyer also provided an update on the ABLE plan and informed the Committee that the Delaware plan was scheduled to launch in the second quarter of 2018. Mr. Meyer indicated that investment performance reports are available through the multi-state National ABLE Alliance.

### **PUBLIC COMMENT**

No members of the public attended the meeting.

### **NEXT MEETING**

Mr. Meyer stated that the next Committee meeting is scheduled for May 22, 2018

### **ADJOURNMENT**

**A MOTION was made by Treasurer Simpler and seconded by Mr. Roselle to adjourn the meeting at 12:19 p.m.**

**MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

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Alan Colberg,  
Chair, Investment Committee